Aalborg Universitet

AALBORG UNIVERSITY
DENMARK

Instant Internationalization of Emerging Economy New Ventures

The Evidence of Family-Owned Venture from Moldova

Turcan, Romeo V.

Published in:
Impacts of Emerging Economies and Firms on International Business

Publication date:
2012

Document Version
Early version, also known as pre-print

This chapter appears in M. Marinov and S. Marinova (Eds.) Impacts of Emerging Economies and Firms on International Business. Palgrave Macmillan: London.

Instant Internationalization of Emerging Economy New Ventures: The Evidence of Family-Owned Venture from Moldova

Romeo V. Turcan

Introduction

This paper draws from international entrepreneurship (IE) and institutional theories in order to explore rapid internationalization of family-owned ventures from emerging economies. The paper is in response to a number of gaps and challenges identified in the extant IE literature. For example, since the inception of IE (Oviatt and McDougall, 1994), the research in the field has focused mainly on internationalization of new high-technology ventures from developed economies (Yamakawa, Peng and Deeds, 2008)[1] and paid virtually no attention to the internationalization of new (both high- and low-technology) ventures from emerging economies. Further, the research on internationalization of family-owned ventures in IE is in its early stage (Casillas, Acedo and Moreno, 2007; Kontinen and Ojala, 2010), with effectively no research on family-owned ventures from emerging economies[2]. To the above, being positioned at the intersection of international business and entrepreneurship streams of research (McDougall and Oviatt, 2000), it seems the IE field resists blending these two research streams (Keupp and Gassmann, 2009; Turcan, 2006), and it needs to borrow more actively from other disciplines in order for the IE theory to evolve (Turcan, Mäkelä, Sørensen and Rönkkö, 2010).

To address the above-identified gaps and challenges, this paper explores *how* new, family-owned ventures from emerging economies internationalize. In this process, the paper draws from institutional theory with a focus on venture and industry emergence (Aldrich and Fiol, 1994; DiMaggio and Powell, 1983), and from institutional voids theory (Khanna, Paleru and Sinha, 2005). In line with a theory-building research design, this paper adopts a single-case study strategy and relies on intensity sampling, the logic and power of which lie in purposefully selecting information-rich cases that manifest the phenomenon intensely, but not extremely (Miles and Huberman, 1994).

[1] For review of IE research, please refer, e.g., to Jones, Coviello and Tang (2011), Kraus (2011), Coombs, Sadrieh and Annavarjula (2009), Keupp and Gassmann (2009), Rialp, Rialp and Knight (2005), and Coviello and Jones (2004).

[2] For review of internationalization of family-owned ventures in IE research, please refer to Casillas, Acedo and Moreno (2007) and Kontinen and Ojala (2010).

A new, rapidly-internationalized, family-owned venture – Dried-Fruit – located in Moldova was selected for this study. Data collection took place in two phases: in 2008 and 2011. The following section discusses the extant research on internationalization of new ventures from emerging economies and positions the current research within institutional theory as one of the legs of the international business strategy tripod (Peng, Wang and Jiang, 2008; Yamakawa, Peng and Deeds, 2008). The research context is presented next, followed by the methodology section. The research findings are presented immediately after, followed by theoretical reflections.

Theoretical background

International new ventures from emerging economies

In this research we side with Yamakawa, Peng and Deeds (2008: 60) who maintain that "if research on entrepreneurship and internationalization is to keep up with practice, it seems imperative that at least some of our attention be devoted to these cutting-edge cross-border entrepreneurial activities moving from [emerging economies to developed economies]". Although scarce, the research on internationalization of new ventures from emerging economies is gradually taking form (see e.g., Dib, da Rocha and da Silva, 2010; Lopez, Kundu and Ciravegna, 2009; Naude and Rossouw, 2010; Thai and Chong, 2008; Turcan and Fraser, 2012; Zhang, Tansuhaj and McCullough, 2009; Zhou, Barnes and Lu, 2010; Zou and Ghauri, 2010). The findings thus far point, for example, to learning-capability and networking-capability as capability-upgrading constructs that differentiate international new ventures (INVs) in emerging economies from traditional internationalizing ventures.

Looking at the currently available theory-building research, the findings suggest that INVs from emerging economies internationalize gradually (see Turcan and Fraser (2012) for an exception), do not follow the internationalization patterns suggested by the studies of INVs (from developed economies), and are born regional rather than global (Lopez, Kundu and Ciravegna, 2009; Thai and Chong, 2008; Zou and Ghauri, 2010). As to the internationalization of family-owned ventures from the IE perspective, the current knowledge of the internationalization process of family-owned ventures is also rather limited (Casillas, Acedo and Moreno, 2007; Kontinen and Ojala, 2010), yielding more or less similar results. For example, in their review of empirical research on internationalization of family-owned ventures, Kontinen and Ojala (2010) found that family-owned ventures tend to internationalize gradually into countries that are close geographically and culturally, encountering in the process various strategic and managerial challenges (Gallo and Sveen, 1991).

Despite the above attempts, earlier criticism of the research on the internationalization of new ventures from emerging economies (Yamakawa, Peng and Deeds, 2008), of the research on entrepreneurship in emerging economies (Bruton, Ahlstrom and Obloj, 2008), as well as of the research on family-owned ventures (Casillas, Acedo and Moreno, 2007; Kontinen and Ojala, 2010) is still valid today. For example, 4 out of 8 studies on INVs from emerging economies identified above ask a *what* type of question, thus testing existing theories, rather than asking *how* and *why* types of questions in order to develop theory. At the same time, 4 out of 8 studies base their empirical work on INVs based in China (though as a country China cannot be equally comparable to other emerging economies because of its size, culture and other economic and non-economic factors); the other three being in Brazil, Costa Rica, Moldova and Vietnam. The same approach to research methods and research contexts is observed in the extant studies of internationalization of family-owned ventures (Kontinen and Ojala, 2010). For example, out of 24 empirical papers reviewed by Kontinen and Ojala (2010), 4 are from China and the remainder is from developed countries.

As to the conceptualization of INVs from emerging economies in general, it has been suggested to position the research on INVs from emerging economies within the strategy tripod that consists of an industry-based view leg, a resource-based view leg, and an institution-based view leg (Peng, Wang and Jiang, 2008; Yamakawa, Peng and Deeds, 2008). The variables that define the first leg are industry evolution and concentration, knowledge-intensity of the industry, local industry internationalization, global integration of industry, industry venture capital, and regime of appropriability in industry (Fernhaber, McDougall and Oviatt, 2007). The variables that define the second leg relate to network and knowledge (Oviatt and McDougall, 2005a), as well as to organizational learning and entrepreneurial orientation (Yamakawa, Peng and Deeds, 2008). The variables of the final leg are the three fundamental pillars of institutions, namely regulative, normative, and cognitive (Scott, 2001). Given that INVs "...have no prior corporate history in the industry, and hence no prior market presence" (Fan and Phan, 2007: 1114), one may expect the behavior of INVs in the early years of their existence to be shaped substantially by the liability of newness (Stinchcombe, 1965) and the liability of foreignness (Zaheer, 1995). From the institution-based view, legitimacy is viewed as playing a key role in overcoming the above liabilities and concerns in INVs (Turcan, 2011).[3]

An institutional theory perspective on INVs from emerging economies

Institutional theory emphasizes the effects of various structures surrounding organizations that shape organizational and social behavior (Scott, 2001). From the institutional theory perspective, there are three dimensions that contribute to the theoretical understanding of the internationalization of new ventures from emerging economies. One dimension relates to the emergence of an economy. Khanna and Paleru (1997) suggest that the most important criterion defining an emerging economy is how well an economy helps buyers and sellers to come together, arguing that an emerging economy falls short to varying degrees in providing the institutions necessary to support basic business operations.

Institutional theory conceptualizes institutions as the rules of the game in a society (North 1990; Scott 2001), and institutional transitions as fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect organizations as players (Peng 2003: 275). Khanna, Paleru and Sinha (2005) further define the institutional context of an emerging economy as its political and social system, openness, product markets, labor markets, and capital markets and suggest that weak institutions give birth to institutional voids that hamper the implementation of companies' strategies.

The other dimension relates to the process of emergence of a (new) market or a sector of the economy (Aldrich and Fiol, 1994). Uncertain decision-making settings characterize an emergent market, where decisions are made under conditions of technology and market uncertainty, as well as goal ambiguity. In such kinds of uncertain decision-making settings, the possible outcomes of decisions to pursue a new venture and the probability of those outcomes are unknown (Alvarez and Barney, 2005). Another set of constraints facing entrepreneurs in an emerging market relates to the lack of cognitive and socio-political legitimacy (Ranger-Moore, Banaszak-Holl and Hannan, 1991) of that market. As argued by Glynn and Marquis (2004), new ventures' conformity to norms and practices will legitimate them only to the extent that those norms and practices are themselves legitimate, credible, and valued.

---

[3] For a review of empirical studies exploring legitimation and legitimation strategies from different theoretical perspectives, please refer to Turcan, Marinova, Rana (2012).

The next dimension pertains to the process of emergence of the new venture, and the associated liabilities of newness and foreignness. It is a process that can be understood and predicted by viewing it as a quest for legitimacy (Tornikoski and Newbert, 2007), whereby legitimacy is defined as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, beliefs, and definitions" (Suchman, 1995: 574). During the process of emergence or quest for legitimacy, a new venture attempts to reach a legitimacy threshold "…below which the new venture struggles for existence and probably will perish and above which the new venture can achieve further gains in legitimacy and resources" (Zimmerman and Zeitz, 2002: 427). In this quest, a new venture seeks different legitimation strategies (Aldrich and Fiol, 1994) in order to enhance its survival and facilitate the transition to other forms of organizing activities (Delmar and Shane, 2004).

In terms of new venture legitimation strategies, several theoretical perspectives can be identified. Suchman (1995) proposes three strategies for acquiring legitimacy that are available to new ventures, namely conformance, selection, and manipulation. Conformance strategy involves seeking legitimacy by achieving conformity within the demands and expectations of the existing social structure in which the venture is currently positioned, i.e., it involves 'following the rules.' Selection strategy allows the new venture to select a favorable geographic location where there are organizations that conform to similar rules, norms, values and models and may provide a new venture with legitimacy, e.g., software ventures locating their operations in Silicon Valley, California, or Silicon Glen, Scotland. Manipulation strategy involves making changes in the environment to achieve consistency between the venture and its environment. A fourth legitimation strategy is put forward by Zimmerman and Zeitz (2002: 425), this being creation strategy, which "...involves developing something that did not already exist in the environment", such as new operating practices, norms, values, beliefs, expectations, models, patterns of behaviour, and networks. This strategy is especially evident during the introductory stage of new industries and is considered to be the most strategic of all legitimation strategies (Zimmerman and Zeitz, 2002).

At another level, legitimation strategies of new ventures could be grouped into the following four symbolic legitimation strategies: (i) credibility, defined as personal capability and personal commitment to the venture; (ii) professional organizing, defined as professional structures and processes; (iii) organizational achievement, defined as partially-working products and technologies, venture age and number of employees; and (iv) quality of stakeholder relationships, defined as prestigious stakeholders, and personal attention (Zott and Huy, 2007). Recently, in a study of new ventures that were trying to legitimize in their efforts to internationalize and survive before and after the dot.com bubble, Turcan (2011) proposes six legitimation strategies. These are: (i) technology, aimed to validate a technology or know-how; (ii) market, aimed to better understand the market; (iii) operating, aimed to have an optimal organizational gestalt; (iv) locational, aimed to overcome the disadvantages of foreignness; (v) alliance, aimed to mitigate the risk of newness and smallness; and (vi) anchoring, aimed to intentionally misrepresent the facts. In a longitudinal ethnographic case study of internationalization of a software venture from an emerging economy, Turcan and Fraser (2012) found for example that in order to acquire cognitive legitimacy and socio-political legitimacy and successfully internationalize, an international new venture needs to design a robust business model targeting both internal and external stakeholders, engage in persuasive argumentation invoking familiar cues and scripts, promote and defend incentives and operating mechanisms in political negotiations, and overcome the country-of-origin effect by pursuing a technology legitimation strategy.

Research setting

Moldova is a country landlocked between Romania and Ukraine; it became independent in 1991 as a result of the collapse of the USSR. Moldova stretches just under 450 km from north to south, and less than 250 km from east to west, having just over 3.5 million citizens and being positioned in a lower middle income category (www.doingbusiness.org). According to the Global Competitiveness index, Moldova is a factor-driven economy that maintains its competiveness primarily via its public and private institutions, infrastructure, macroeconomic environment, and its workforce (www.weforum.org).[4] Being ranked 94th out of 131 countries surveyed, and 23rd out of 27 in the region (www.weforum.org), Moldova was ranked in 2009 the fifth most stable economy in the world, the main reasons being the primitive financial system, and the low level of credit issuing, being an agricultural rather real based economy, thus making Moldova less vulnerable to the global financial and economic crisis (www.thebanker.com).[5]

[4] The Global Competitiveness Index is based on three factors: basic requirements, efficiency enhancers, and innovation; rank number 1 denotes the most competitive nation out of 139 economies.
[5] Country data herein relates to recent years, as Moldova started being included in the ranking calculation from 2004/2005.

According to the Global Economic Freedom index, Moldova is ranked in 2011 as predominantly un-free with a score of 55.7, which is below the regional average by 7.1 points and free economies in general by 28.4 points (www.heritage.org).[6] Moldova scores though relatively well in trade freedom and fiscal freedom, with measures being implemented to improve regulatory transparency and the overall entrepreneurial environment. However, Moldova's overall progress toward fostering sound macroeconomic management and enhancing the entrepreneurial climate has been marginal, scoring low on business freedom, investment freedom, corruption and labor freedom. According to the Doing Business index in 2011, Moldova ranks 81st, this is below the regional average by 4 points and the OECD high-income average by 52 points (www.doingbusiness.org).[7] Although on aggregate the country index went up by 18 points as compared to 2010, the indicator concerning protecting investors went down and actually is one of the lowest scores (111), with the enforcing contracts index also deteriorating (down by 11 points).

Historically, the agricultural sector in Moldova has been considered as one of the main pillars of the national economy, accounting for over 16% of the country's GDP, and contributing approximately 50% to Moldova's total exports. The production of dried fruit per year is somewhere between 2000 and 3500 metric tonnes, subject to the quality and growing conditions of the raw material. A few large and medium sized companies dominate the dried fruit market in Moldova (Table 1), accounting for about 67% of the total turnover (CNFA, 2008). There are also a large number of small exporters that are focused on the Russian market and/or the markets of other CIS countries, and that could be described as the ones that do not have the necessary capabilities to meet the safety and quality requirements of the EU market, as well as those unable to ensure proper communications with EU customers (CNFA, 2008).

Insert Table 1 about here

[6] The Index of Economic Freedom measures and ranks 161 countries across 10 specific freedoms: business, trade, fiscal, monetary, investment, financial, property rights, labour freedoms, freedoms from Government and corruption. Each one of the 10 freedoms is graded using a scale from 0 to 100, where 100 represent the maximum freedom. A score of 100 signifies an economic environment or set of policies that is most conducive to economic freedom.

[7] Economies are ranked from 1 to 183 by the ease of Doing Business Index that includes 10 topics: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. A high ranking means the regulatory environment is more conducive to the starting and operation of a local firm.

The EU market absorbs approximately 80% the Moldovan sector's output of dried fruit, with the remainder going to CIS markets, primarily Russia, Belarus, and Ukraine. Being a net exporter of dried fruit, despite the fact that the sector is operating under its capacity (CNFA, 2008), Moldova is among the leading suppliers of selected organic dried fruit (from developing countries) to the EU with a total share of 3% (CBI, 2005).

Method

In line with a theory-building research design (Dyer and Wilkins, 1991), as well as driven by the nature of the research question, that being *how* new family-owned ventures from emerging economies internationalize, a single-case study strategy was adopted for the purpose of theory building. The case company was purposefully selected following the intensity sampling strategy, the logic and power of which lie in selecting information-rich cases that manifest the phenomenon intensely, but not extremely (Miles and Huberman, 1994). Three selection criteria were identified in order to select the case company. One, the case company shall resemble an INV defined as a new venture that aims to derive profits from international activities right from their inception or immediately thereafter (Oviatt and McDougall, 2005b). Two, the case company shall meet the criteria of a family-owned venture, defined as a venture '…where a single family owns the majority of stock and has total control' (Gallo and Sveen, 1991: 181). And three, the case company has to be located in an emerging economy.

Following the above sampling strategy and criteria, a family owned venture, referred to here as Dried-Fruit, was selected for the study. Dried-Fruit is in the business of processing fruit and vegetables. It is located approximately 100 km northwest of the capital of Moldova, Chisinau, in a district centre located on the border with Romania. It started up in 2000 and from its inception the sales from exports grew at a high rate, almost 120% per year, with the ratio of revenue coming from international sales growing from 31% in 2001 to 96% in 2007, and reaching 98% in 2010. Dried-Fruit grew in size in terms of number of employees at an average rate of 29% per year until 2008. In 2008 the growth rate slowed down to 11%, and declined by 22% in 2010 as compared to 2008. Aggregate growth data for Dried-Fruit are presented in Figure 1.[8]

[8] For a more detailed account of the data on Dried-Fruit, please refer to the teaching case in Turcan (2012).

Insert Figure 1 about here

Data collection and analysis

Data collection took place in two phases: in the summer of 2008 and spring of 2011. Data were collected using two methods: in-depth, semi-structured interviews with decision makers and their key stakeholders, and unobtrusive data. In 2008 the lead author had the opportunity to visit the company and interview the executive director (who is also the co-owner), and the production manager. The follow-up interviews with the executive director took place in spring of 2011. The lead author had the opportunity to also discuss with several stakeholders of the company (for the purpose of data triangulation), such as a policy maker, a member of the budget and economy committee in the Parliament of Moldova, and a chief of party of a USAID-funded project that was providing assistance to the agricultural sector in Moldova. The interviews were recorded with the permission of interviewees, and transcribed verbatim. Data extracted were sent back to the interviewees, thus contributing to the enhancement of the research validity.

Unobtrusive data (Webb, Campbell, Schwartz, Sechrest, 2000) were collected at length to further contribute to the triangulation of the data that were emerging from the interviews. The unobtrusive data consisted of (i) running records, such as legislative initiatives and bills, and mass media, and (ii) episodic and private records, such as sales records, and industrial and institutional records. A database for the case was created to organize and document all the data collected, thus contributing to the reliability of the study.

Following the theory-building process, within-case analysis (Miles and Huberman, 1994) was conducted, whereby the case company was explored and described in detail. According to Dubin (1969), the very essence of description is to name the properties of things, and the more adequate the description, the greater the likelihood that the concepts derived from the description will be useful in subsequent theory building. The case company is explored and described in detail employing an even-list matrix as suggested by Miles and Huberman (1994) for within-case analysis. The interview transcripts and secondary data pertinent to each case were coded in an iterative manner, working back and forth between theory, emerging patterns and data. Within-case analysis was the basis for developing early constructs surrounding the internationalization of the new venture from an emerging economy.

Findings

Emergence of an economy and a new sector of the economy

As the data suggest, Dried-Fruit started its operations in an emerging sector of an economy located in an emerging country. As concluded by CNFA (2008: 29), "…the challenge that lies ahead for the first one(s) to launch organic production [in Moldova] becomes daunting". Essentially, Dried-Fruit, together with the other two competitors, was a pioneer in this emerging sector of the economy (Figure 1). In such circumstances, learning-from-others is not an option since apparently there are no role models in the sector, and the environment does not understand or acknowledge the existence of the new, emerging venture (Stinchcombe, 1995). As to the lack of understanding of the emerging sector, hence the lack of cognitive legitimacy (Aldrich and Fiol, 1994), when asked about the legislative improvement the CEO/owner would like to see, she replied:

> "*None… I mean [the members of the parliament] shall do nothing as I am afraid they can make the situation worse. It is not ideal now, but I am afraid it can get worse after they try to improve it*".

The data further point to other institutional voids, the remedy of which are vital for the survival of an emerging venture in an emerging economy. For example, one of the biggest growth challenges was scarcity and quality of labor (labor market institutional void); this challenge is amplified as Dried-Fruit is located away from the capital and district centers. It has to be also mentioned that up to one million of citizens left Moldova in search for work abroad since its independence in 1991 (www.state.gov). As to the quality of labor, the owner of Dried-Fruit pointed to the fact that vocational education was almost non-existent, and the current university graduates are of low quality. This negative trend was also observed in other sectors of the economy (e.g., ICT and software) by the members of the Parliament who went on respective company internships.

The other growth challenge pertains to the access to funding (capital market institutional void). As mentioned earlier, the local financial market is not sophisticated, with no venture capital industry, being dominated by local banks, with foreign banks first being granted access to the market in 2008. The key issue is about the cost and time of the funding. The interest rates were and are still very high, e.g., 14% to 16% for USD or Euros, and over 20% for Moldova Leu with a settlement period for a loan being somewhere between 1 and 3 years.

Another growth challenge relates to the exchange rate (openness institutional void). The Moldovan Leu was strengthened artificially in 2008 against the US dollar for political reasons, those being due to the upcoming general elections in spring of 2009. As a result, Dried-Fruit lost approximately 4 million Leu due to this artificial strengthening.

Being also the largest variable cost, the data point to the poor supply of raw material as another enduring growth challenge (product market institutional void), as well as the major constraint to further expansion of the dried fruit sector (CNFA, 2008). Several related issues could be identified herein. One relates to quantity, given the aging and decreasing output of the orchards, and the lack of varieties suitable for drying. The second relates to quality and inefficient growing technologies, or as the owner of Dried-Fruit put it:

> "*We do have real problems with [the quality] of raw material, because here in Moldova, the agriculture is the same as it was during the Soviet Union*".

The third relates to the agency issue, namely to the fact that farmers are unwilling and/or unable to keep their promises. As the owner of Dried-Fruit further emphasized:

> "*These [local suppliers] do not know what a contract means – today they deliver you a loaded truck, tomorrow they will not, saying they have a delivery for somebody else, for their relatives, etc. It is difficult to work like this, but we do*".

To deal with this issue of poor raw material production base, Dried-Fruit decided to integrate backward and acquired in 2006 100 ha of agricultural land with the aim of starting to plant plum and cherry trees in 2007. During this process, Dried-Fruit encountered further challenges. In addition to the fact that the soil was in a very deplorable state and required time to be prepared and ready for new orchards, Dried-Fruit learned that it had to import the planting trees and seeds, as there was no local production-base for such planting material. To the above, an import tax of 15% and VAT of 20% were put on such planting material, which made such imports unattractive. Only in 2008/2009 did the production-base of local planting trees and seeds start to emerge, which made it possible for Dried-Fruit to buy the necessary planting material locally; Dried-Fruit was first able to plant its own orchards in 2010.

Data point to another institutional void that is coined here as local government. Given the existing proclivity to decentralize decision-making processes and give more power to, hence empower, local governments, the effect of local governments on the process of the emergence of a new venture and a new sector should not be underestimated. For example, Dried-Fruit had to build and bear the costs (~ €65,000) associated with the construction of a gas pipeline and the road to the company premises. When Dried-Fruit approached the mayor's office to ask for a refund, it was refused on the grounds that "*these costs were not budgeted by the mayor's office*". As the owner of Dried-Fruit explained: "*they live in their world, we, in ours*".

Another challenge is suggested by the data, namely disloyal competition (openness institutional void) in the market that comes from small dried fruit producers. These producers' products are of low quality and are unofficial (bypassing the tax authorities), making them 'low cost/low price' producers/exporters. To deal with these kinds of issues, Dried-Fruit joined the Association of Canned Producers through which it made its voice heard to the Government and at the same time it received support in finding potential investors.

Internationalization of Dried-Fruit

The owner of Dried-Fruit saw the opportunity for the dried fruit market sometime before launching the company when she was the executive director of one of the largest fruit and vegetable processing enterprises in Moldova. Unable to pursue this opportunity in that capacity due to red tape and lack of support for dramatic changes, the owner left that enterprise and decided to pursue the identified opportunity on her own by starting her own venture. Besides her drive and motivation for success, the owner brought to the new venture her knowledge, experience and understanding of the market and the business. Three colleagues followed the owner to the new venture, being responsible for the marketing and sales, engineering, and accounting areas.

Not selling internationally was not an option for the owner; as she put it: "*how many dried fruits Moldova can consume?*", implying that the local market was too small. The issue was which way to go: east or west, to the Russian and CIS markets or to the EU market. Going east did not require undertaking substantial legitimation efforts as a great number of Moldovan companies were selling dried-fruits to Russia and other CIS markets. However, several factors (institutional voids related to Russia) played a crucial role in deciding not to pursue this route. One, from her experience the owner had learned that Russian partners are unreliable, not trustworthy, and unwilling to cooperate on payment and delivery terms, sometimes even refusing to pay. And two, trading relationships between the two countries were quite politicized, exposing the Moldovan companies to a high political risk.

Going west was the opposite case; targeting a stable (politically and economically) EU market with potential trustworthy business partners, the owner was aware of the fact that *she* would in turn have to earn the trust of the EU partners, and at the same time prove and maintain the quality of the products. In those days especially, 'Made in Moldova' was not evoking a lot of trust. To mitigate this legitimation challenge, the owner was exploring sales routes via indirect exporting; while aware that the company would lose quite substantially on pricing, that was the price the owner was willing to pay to earn the trust of the key players in the market and to keep the company going.[9]

The first international market Dried-Fruit entered was the Czech Republic through a buyer the owner knew from her previous experience as an executive director. At the same time Dried-Fruit entered the nearby markets of Romania and Ukraine. The Czech partner later introduced Dried-Fruit to a large buyer in Austria, while the Romanian partner introduced Dried-Fruit to another large buyer in Germany. As the company was growing, Dried-Fruit was also approached by a large buyer from Lithuania.

In addition to the above, the process of internationalization was facilitated by several other factors that relate to the institutional environment. To expand into the EU market, Dried-Fruit had to comply with the safety and quality requirements of the EU market. In 2007, Dried-Fruit implemented the HACCP (Hazard Analysis Critical Control Point) framework with support from CNFA (Citizens Network for Foreign Affairs) in order to comply with food safety requirements. In 2009, the key company products, dried prunes, dried cherries, and jam products, received organic certification, BIO, demonstrating compliance with a set of production standards for growing, storage, processing, packaging and shipping. Moreover, Dried-Fruit's agricultural land was certified to make possible the growth of ecological products.

Dried-Fruit's internationalization efforts were further facilitated by the EU Neighborhood Policy developed in 2004 (http://ec.europa.eu/world/enp/policy_en.htm). Based on this Policy initiative, the EU-Moldova Action Plan was adopted in 2005, and in 2006, inter alia, Moldova benefitted from the new EU generalized system of preferences (GSP+)[10] that made duty-free (zero tariff) access to the EU market possible for 6,400 products

[9] Factors affecting prices of dried fruits are for example quantities and the type of dried fruit in question, the harvest output in the supplying countries in relationship to demand, negotiations between the different chain partners and the number of intermediaries buying and selling, the quality of fresh fruit (and vegetables) aimed at the consumer markets, and exchange rates (CBI, 2008).

[10] The eligibility of countries placed in the GSP+ incentive scheme is confirmed by an assessment of their effective implementation of core human and labour rights, good governance, and environmental conventions (European Council, 2005).

covered by GSP+ (European Commission, 2008). In addition, the EU introduced autonomous trade preferences to Moldova by removing all remaining tariff ceilings for industrial products and by improving access to the EU market for agricultural products (European Council, 2008).

Theoretical reflections

Emergence of an economy and a new sector of the economy

Extrapolating from the above findings, the new, emerging industry lacks cognitive legitimacy, defined as knowledge about a new activity and what is needed to succeed (Ranger-Moore, Banaszak-Holl, Hannan, 1991). In such circumstances, a new venture ought to conform to the existing rules, norms and practices of an emerging industry even though their legitimacy, credibility and value are questioned by the incumbent entrepreneurs. As argued by Glynn and Marquis (2004), new venture conformity to norms and practices will legitimate only to the extent that those norms and practices are themselves legitimate, credible, and valued. From the above it may thus be postulated that:

> P1. *During the introductory stage of an industry, an emerging venture will focus on educating its key stakeholders about the new activity and its critical success factors, aiming to create cognitive legitimacy.*

It is further conjectured from the findings that establishment of cognitive legitimacy is time dependent. That is, cognitive legitimacy is gradually being established as major stakeholders progressively learn and acquire the necessary understanding about the emerging new venture and the sector, though sometimes to the detriment of the new venture(s). Two types of cognitive legitimacy come into fore in the early stages of the new industry emergence. One type will be framed at/by the meso-level and will reflect the understanding of given norms and values. Another type will be framed at/by the micro-level and will reflect the understanding of desired norms and values. The velocity of this convergence will depend primarily on the way entrepreneurs theorize (see e.g., Delmestri and Wezel, 2011; Greenwood, Suddaby and Hinings, 2002; Lounsbury and Crumley, 2007) the desired institutional change. It is thus further conjectured that:

P2. *The two conflicting cognitive legitimacies (meso and micro) will converge as times passes and as the keys stakeholders get a better grasp about the new activities and related critical success factors.*

P3. *The velocity meso and micro cognitive legitimacies convergence will be primarily driven by entrepreneurs' way of theorizing the desired institutional change.*

As time elapses, it is further posited that cognitive legitimacy leads to socio-political legitimacy that is defined as the value placed on an activity by cultural norms and political authorities, given existing norms and laws (Ranger-Moore, Banaszak-Holl and Hannan, 1991). In turn, the establishment of the socio-political legitimacy could be linked to the legitimacy threshold. That is, it can be argued that once a new venture is valued by cultural norms and political authorities, it has reached the legitimacy threshold. Following from this:

P4. *The establishment of socio-political legitimacy will be positively associated with the velocity of the convergence of meso and micro cognitive legitimacies.*

P5. *The acquisition of legitimacy threshold will be positively associated with the establishment of socio-political legitimacy.*

It is further suggested to view the lack of cognitive legitimacy in an emerging industry as an institutional void. We side with Khanna, Paleru and Sinha (2005) who argue that before companies conduct the analysis of an industry structure they first should understand a country's institutional context. However, in light of the above theorizing it can be argued that Khanna, Paleru and Sinha's framework may capture only the meso-cognitive legitimacy, leaving the micro-cognitive legitimacy out (clearly when applied to a new, emerging industry). The institution void framework could be further enhanced by adding the local government institutional void that captures the effect local governments have or might have on the organizational performance. It is thus suggested that:

P6. *The institutional voids will have a negative, moderating effect on the process of internationalization.*

Internationalization of new ventures from emerging economies

As to the process of internationalization, it can be argued that an emerging new venture is born regional rather international or global, i.e., it is a regional new venture (RNV). Furthermore, in this process, being affected by various institutional voids locally, an emerging RNV adopts various strategies to gain legitimacy in an emerging sector of an emerging economy and beyond. For example, an emerging RNV will attempt to acquire external legitimacy by partnering with key players in the market. This is in line with the earlier general view that "…network relationships are intangible resources salient to organizational growth" (Coviello, 2005: 723). It could be further speculated that through such external legitimacy, an RNV will be able to acquire market (better understanding of the international target market) and locational (overcoming liability of foreignness) legitimacies, both being related to the process of acquiring internal legitimacy. It follows that:

> P7. *The success of internationalization is contingent upon the acquisition of external legitimacy.*
>
> P8. *The acquisition of external legitimacy leads to the acquisition of market and locational legitimacy.*

Furthermore, an RNV will acquire another type of internal legitimacy, i.e., product legitimacy, via certification to demonstrate compliance, for example, with a set of safety and quality requirements, production standards, storage, processing, packaging, and shipping. Hence:

> P9. *The success of internationalization is contingent upon the acquisition of internal legitimacy (product legitimacy).*

Related to the product legitimacy, backward integration emerged as another legitimation strategy. However, this kind of strategy requires an RNV to acquire additional and considerable expertise in the management of physical resources such as land and water/irrigation, production systems such as crop rotation, varieties, operating costs, technology and husbandry, related human resources, such as family labor, permanent employees, picking labor, related capital items such as debt management and depreciation, and off-farm interests (RMCG, 2004). In addition to the above, an RNV has to implement best business practices directed towards the protection of the environment, as well as obtain organic certification of the land. All above requirements bring also a higher level of complexity when it comes to building the operating legitimacy of the new venture.

Conclusion

This theory-building study makes an attempt to contribute to international entrepreneurship research field that is fragmented and suffers from theoretical paucity (Jones, Coviello and Tang, 2011) and from a coverage bias (Turcan, Mäkelä, Sørensen and Rönkkö, 2010) that focuses mostly on high-tech INVs from developed economies (Yamakawa, Peng and Deeds, 2008) and that needs to borrow more actively from other disciplines in order for IE theory to evolve (Turcan, Mäkelä, Sørensen and Rönkkö, 2010). In this endeavor, the study, drawing from institutional theory, has explored the process of internationalization of new, family-owned ventures from emerging economies. In line with a theory-building research design, the study adopted a single-case study methodology selecting an information-rich case where the phenomenon was manifested intensely, but not extremely (Miles and Huberman, 1994).

A set of contributions have been put forward. One set relates to understanding the process of legitimation of an emerging industry. For example, it is conjectured that cognitive legitimacy, as an institutional void, is time-dependent and consists of two types: meso-cognitive legitimacy and micro-cognitive legitimacy. Another set pertains to understanding the institutional context of an emerging industry. Here the existing institutional voids framework is enhanced by suggesting another type of institutional void, that of local government institutional void. Yet another set of contributions concerns the legitimation process of the internationalization of a new venture. Specifically, the emphasis is on the legitimation strategies that international new ventures from emerging economies pursue in order to acquire external and internal legitimacy. In addition, a number of propositions are put forward to guide future research.

Being among the few of such studies, this study points the way forward to more theory-building research that, for example, might draw from various theoretical lenses and widen the sampling coverage, or compare international new, family-owned ventures from emerging economies with international new family-owned ventures from developed economies, or that could conduct an emerging economy cross-country comparison of international new ventures.

References

Aldrich, H. and Fiol, M. (1994). Fools rush in? The institutional context of industry creation, *Academy of Management Review*, 19(4): 645-670.

Alvarez, S. and Barney, J. (2005). How do entrepreneurs organize firms under conditions of uncertainty?, *Journal of Management*, 31(5): 776-793.

Bruton, G., Ahlstrom, D. and Obloj, K. (2008). Entrepreneurship in emerging economies: where are we today and where should the research go in the future, *Entrepreneurship Theory and Practice*, 31(1): 1-14.

Casillas, J., Acedo, F. and Moreno, A. (2007). *International Entrepreneurship in Family Businesses*. Cheltenham UK: Edward Elgar Publishing.

CBI (2005). *EU Market Brief: Dried Fruit*. CBI Market Information Database, www.cbi.eu, accessed May 19, 2011.

CBI (2008). *Preserved Fruit and Vegetables: The EU Market for Dried Fruit*. CBI Market Information Database, www.cbi.eu, accessed May 19, 2011.

CNFA (2008). *Moldova's Dried Fruit Sector Assessment*. www.cnfa.md, accessed May 16, 2011.

Coombs, J., Sadrieh, F. and Annavarjula, M. (2009). Two decades of international entrepreneurship research: what have we learned and where do we go from here?, *International Journal of Entrepreneurship*, 13: 23-64.

Coviello, N. (2005). The network dynamics of international new ventures, *Journal of International Business Studies*, 36(1): 29-41.

Coviello, N. and Jones, M. (2004). Methodological issues in international entrepreneurship research, *Journal of Business Venturing*, 19(4): 485–508.

Delmar, F. and Shane, S. (2004). Legitimating first: Organizing activities and the survival of new ventures, *Journal of Business Venturing*, 19(3): 385-410.

Delmestri, G. and Wezel, F. (2011). Breaking the wave: the contested legitimation of an alien organizational form, *Journal of International Business Studies*, 42(6): 828-852.

Dib, L., da Rocha, A. and da Silva, J. (2010). The internationalization process of Brazilian software firms and the born global phenomenon: examining firm, network, and entrepreneur variables, *Journal of International Entrepreneurship*, 8(3): 233-253.

DiMaggio, P. and Powell, W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields, *American Sociological Review*, 48(2): 47-160.

Dubin, R. (1978). *Theory Development*. New York: Free Press.

Dyer, G. and Wilkins, A. (1991). Better stories, not better constructs, to generate better theory: a rejoinder to Eisenhardt, *Academy of Management Review*, 16(3): 613-619.

European Commission (2008). *EU Gives Developing Countries Duty-Free Access with GSP+*. http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-preferences/index_en.htm, accessed May 31, 2011

European Council (2005). *EU Member States Back New EU Generalised System of Preferences*. http://www.europa-eu-un.org/articles/en/article_4827_en.htm, accessed May 31, 2011

Fan, T. and Phan, P. (2007). International new ventures: revisiting the influences behind the 'Born-global' Firm, *Journal of International Business Studies,* 38(6): 1113–1131.

Fernhaber, S., McDougall, P. and Oviatt, B. (2007). Exploring the role of industry structure in new venture internationalization, *Entrepreneurship Theory and Practice*, 32(3): 517-542.

Gallo, M. and Sveen, J. (1991). Internationalizing the family business: facilitating and restraining factors, *Family Business Review*, 4(2): 181-190.

Glynn, M. and Marquis, C. (2004). When good names do bad: symbolic illegitimacy in organization, *Research in Sociology of Organizations*, 22: 147-170.

Greenwood, R., Suddaby, R. and Hinings, C. (2002). Theorizing change: the role of professional associations in the transformation of institutionalized fields, *Academy of Management Journal*, 45(1): 58-80.

http://ec.europa.eu/world/enp/policy_en.htm, accessed May 26, 2011.

Jones, M., Coviello, N. and Tang, Y. (2011). International entrepreneurship research (1989–2009): a domain ontology and thematic analysis, *Journal of Business Venturing*, 26(6): 632-659.

Keupp, M. and Gassmann, O. (2009). The past and the future of international entrepreneurship: a review and suggestions for developing the field, *Journal of Management*, 35(3): 600-633.

Khanna, T. and Paleru, K. (1997). Why focused strategies may be wrong for emerging markets, *Harvard Business Review*, 75(4): 41-51.

Khanna, T., Paleru, K. and Sinha, J. (2005). Strategies that fit emerging markets, *Harvard Business Review*, 83(6): 63-76.

Kontinen, T. and Ojala, A. (2010). The internationalization of family businesses: a review of extant research, *Journal of Family Business Strategy*, 1(2): 97-107.

Kraus, S. (2011). State-of-the-art current research in international entrepreneurship: a citation analysis, *African Journal of Business Management*, 5(3): 1020-1038.

Lopez, L., Kundu, S. and Ciravegna, L. (2009). Born global or born regional? Evidence from an exploratory study in the Costa Rican software industry, *Journal of International Business Studies*, 40(7): 1228-1238.

Lounsbury, M. and Crumley, E. (2007). New practice creation: an institutional perspective on innovation, *Organization Studies*, 28(7): 993–1012.

McDougall, P. and Oviatt, B. (2000). International entrepreneurship: the intersection of two research paths, *Academy of Management Journal*, 43(5): 902-906.

Miles, M. and Huberman, M. (1994). *Qualitative Data Analysis: An Expanded Sourcebook*. London: Sage.

Naude, W. and Rossouw, S. (2010). Early international entrepreneurship in China: Extent and determinants, *Journal of International Entrepreneurship*, 8(1): 87-111.

North, D. (1990). Institutions, Institutional Change and Economic Performance. Cambridge, MA: Harvard University Press.

Oviatt, B. and McDougall, P. (1994). Toward a theory of international new ventures, *Journal of International Business Studies*, 24(1): 45–64.

Oviatt, B. and McDougall, P. (2005a). Defining international entrepreneurship and modeling the speed of internationalization, *Entrepreneurship Theory and Practice*, 29(5): 537-553.

Oviatt, B. and McDougall, P. (2005b) Toward a theory of international new ventures, *Journal of International Business Studies*, 36(1): 29–41.

Peng. M. (2003). Institutional transitions and strategic choices, *Academy of Management Review*, 28(2): 275-296.

Peng, M., Wang, D. and Jiang, Y. (2008). An institution-based view of international business strategy: a focus on emerging economies, *Journal of International Business Studies*, 39(5): 920–936.

Ranger-Moore, J., Banaszak-Holl, J. and Hannan, M. (1991). Density-dependent dynamics in regulated industries: founding rates of banks and life insurance companies, *Administrative Science Quarterly*, 36(1): 36–65.

Rialp, A., Rialp, J. and Knight, G. (2005). The phenomenon of early internationalizing firms: what do we know after a decade (1993–2003) of scientific inquiry?, *International Business Review*, 14(2): 147–166.

RMCG (2004). *Business analysis of dried fruit growers*. http://www.rmcg.com.au/web/RID_-_P4_files/Dried%20Grape%20Benchmarking%20-%20final%20report%20v1.1.pdf, accessed May 23, 2011.

Scott, R. (2001). *Institutions and Organizations*. Thousand Oaks, CA: Sage Publications.

Stinchcombe, A. (1965). Social structure and organizations, in J. March (Ed.) *Handbook of Organizations*, Chicago: Rand McNally, 142-193.

Suchman, M. (1995). Managing legitimacy: Strategic and institutional approaches, *Academy of Management Review*, 20(3): 571-610.

Thai, M. and Chong, L. (2008). Born-global: the case of four Vietnamese SMEs, *Journal of International Entrepreneurship*, 6(2): 72-100.

Tornikoski, E. and Newbert, S. (2007). Exploring the determinants of organizational emergence: a legitimacy perspective, *Journal of Business Venturing*, 22(2), 311-335.

Turcan, R. V. (2006). *De-internationalisation of small high-technology firms: An international entrepreneurship perspective*. Glasgow, UK: University of Strathclyde, PhD dissertation.

Turcan, R. V. (2011). *How international new ventures acquire legitimacy*, Paper presented at the 37th EIBA Annual Conference, Academy of Economic Studies, Bucharest, December 8-10.

Turcan, R. V. and Fraser, N. M. (2012). *The emergence of an international new software venture from an emerging economy*, Paper presented at the 3rd International Conference on Software Business, MIT Sloan School of Management, Cambridge, United States, June 18-21.

Turcan, R. V., Mäkelä, M., Sørensen, O. and Rönkkö, M. (2010). Mitigating theoretical and sampling biases in the design of theory-building research in international entrepreneurship, *International Entrepreneurship and Management Journal*, 6(4): 399-417.

Turcan, R. V., Marinova, S.T. and Rana, M. B. (2012). Empirical studies on legitimation strategies: A case for international business research extension, in L.Tihanyi, T. Devinney and T. Pedersen (Eds.) *Institutional Theory in International Business and Management*, Advances in International Management, 25: 425.

Turcan, R.V. (2012). Growth challenges in small manufacturing ventures from emerging economies: The evidence from Moldova, in G. Tesar and J. Bodin (Eds.) *Marketing*

Management in Geographically Remote Industrial Clusters: Implications for Business-to-Consumer Marketing, World Scientific Publishing, forthcoming.

Webb, E., Campbell, D., Schwartz, R. and Sechrest, L. (2000). *Unobtrusive Measures*. Thousand Oaks, CA: Sage Publications.

www.doingbusiness.org (2011). www.doingbusiness.org/data/exploreeconomies/moldova, accessed December 2011.

www.heritage.org (2011). www.heritage.org/index/Country/Moldova, accessed December 2011.

www.state.gov/g/drl/rls/irf/2006/71396.htm, accessed June 6, 2011.

www.thebanker.com (2009). www.thebanker.com/Banker-Data/Banker-Rankings/Financial-Health-Risers-and-fallers, accessed September, 2011.

www.weforum.org (2011). www.weforum.org/issues/global-competitiveness, accessed December 2011.

Yamakawa, Y., Peng, M. and Deeds, D. (2008). What drives new ventures to internationalize from emerging to developed economies?, *Entrepreneurship Theory and Practice*, 32(1): 59-82.

Zaheer, S. (1995). Overcoming the liability of foreignness, *Academy of Management Journal*, 38(2), 341-363.

Zahra, S. (2005). The theory of international new ventures: A decade of research, *Journal of International Business Studies*, 36(1): 20–29.

Zhang, M., Tansuhaj, P. and McCullough, J. (2009). International entrepreneurial capability: the measurement and a comparison between born global firms and traditional exporters in China, *Journal of International Entrepreneurship*, 7(4): 292-322.

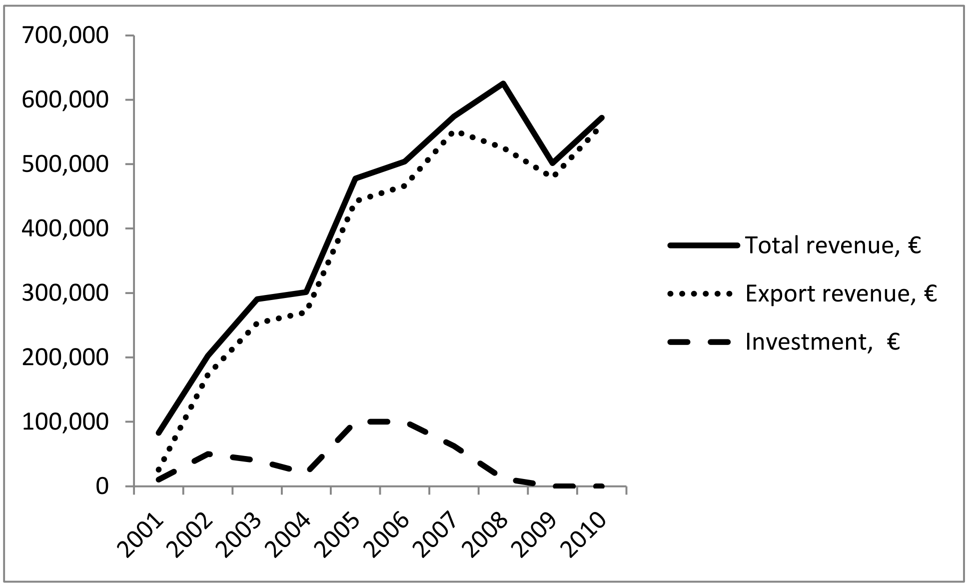
Zhou, L., Barnes, B. and Lu, Y. (2010). Entrepreneurial proclivity, capability upgrading and performance advantage of newness among international new ventures, *Journal of International Business Studies*, 41(5): 882-905.

Zimmerman, M. and Zeitz, G. (2002). Beyond survival: Achieving new venture growth by building legitimacy, *Academy of Management Review*, 27(3): 414-431.

Zott, C. and Huy, Q. (2007). How entrepreneurs use symbolic management to acquire resources, *Administrative Science Quarterly*, 52(1): 70-105.

Zou, H. and Ghauri, P. (2010). Internationalizing by learning: the case of Chinese high-tech new ventures, *International Marketing Review*, 27(2): 223-244.

Figure 1. Company data



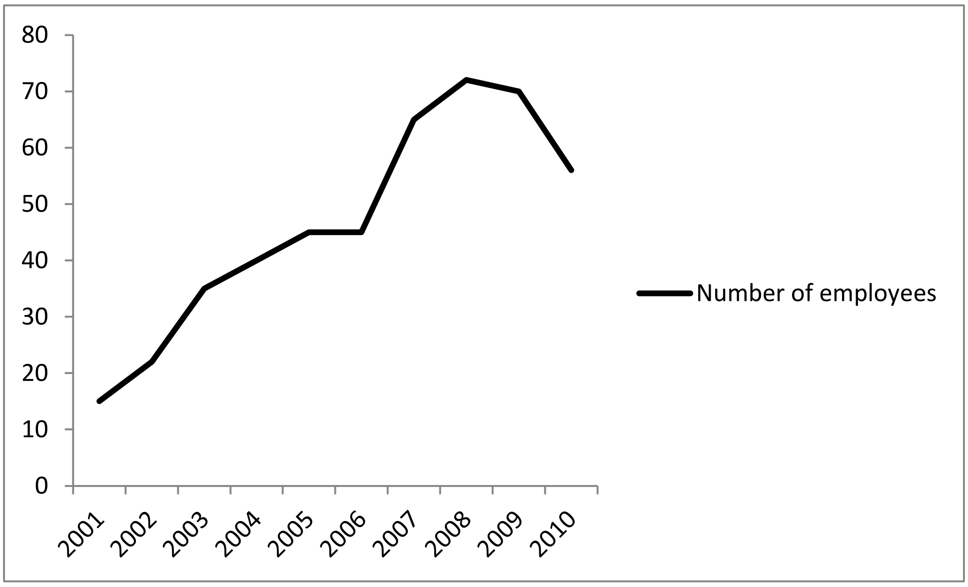


Table 1. Competitor data

	Dried-Fruit	Competitor_1	Competitor_2	Competitor_3	Competitor_4
Year founded	2000	1998 (in 2008 made investment to produce dried fruit)	2001	1995 (in 2008 started producing dried fruits)	1996
Product range	Organic and traditional apple and prune jam Organic dried prunes and dried cherries (without stones)	Dried fruits and vegetables Walnuts	Dried fruits Walnut kernels	Dried fruits Walnut kernels	Organic food (animal feed, dried fruit and vegetables, nuts, and seeds)
Production capacity, tonnes	300 (dried fruit: prunes, apples, and pears) 60 (stone-less dried cherries) 400 (prune jam) 200 (apple jam)	Expected own harvest by 2012: 800 apples, 100 prunes, 200 cherries, 300 peaches	200 dried apples 300 dried prunes	N/A	N/A
Employees	56	N/A	10 permanent 250 season part-time	~500	~1000
Key export market	Germany, Austria, Lithuania, Czech Rep., Romania, Slovak Rep.	Russia, CIS, EU	EU	EU, Turkey, Middle East	EU
Revenue, €	~572,128	N/A	~2,600,000	~7,800,000	N/A
Export, %	98%	N/A	~99%	~95%	~99%
Investment, €	~10,000	N/A	1,450,000	N/A	~18,000,000 (DEM)
Land purchased/planted, ha	100	120	50 farmers and 50 small-scale processors as suppliers	110	3250 small farmers as suppliers